

**DIRECT TESTIMONY
OF
BOB KHAN
(Docket 04-0594)**

WITNESS IDENTIFICATION AND BACKGROUND

Q 1. Please state your name and business address.

A. Bob Khan.

Q 2. By whom are you employed?

A. I am employed by American Water Works Service Company.

Q 3. What is your position with American Water?

A. I am the Manager of Project Delivery and Developer Services for the Central Region of American Water.

Q 4. Please discuss your educational and business background.

A. I received a B.S. degree in Civil Engineering from Texas A&M University (1984) and a Masters Degree in Environmental Engineering from the Illinois Institute of Technology (1990). I am a registered Professional Engineer in the State of Illinois. I am a member of the American Water Works Association, Environmental Federation, and the American Society of Civil Engineers and a member of the Design-Build Institute. Prior to joining Illinois–American Water Company (“Illinois-American”) on January 15, 2002, I was employed, for twelve years, by Citizens Utilities Company of Illinois (“CUCI”) as its Manager of Plant Engineering and then its Director of Engineering.

PURPOSE OF TESTIMONY

Q 5. What is the purpose of your testimony in this proceeding?

A. The purpose of my testimony is to discuss an: (1) agreement for the delivery of water for Illinois–American's Homer Township District, a copy of which is attached hereto as Exhibit “A”; and (2) agreement for the delivery of water for Illinois–American's West Suburban and Santa Fe

District, a copy of which is attached hereto as Exhibit “B”; both agreements initially being between CUCI and Citizens Water Resources Company (“CWRC”). Under the agreements, CWRC delivered and sold Lake Michigan water to CUCI (the two agreements being referred to jointly to as the “Delivery Agreements”). The Delivery Agreements were approved by the Commission in consolidated Docket Nos. 96-0200 and 96-0240. Pursuant to the Order of the Commission in Docket 00-0476, Illinois–American Water Company (“Illinois–American”) assumed the rights and duties of CUCI under the Delivery Agreements, as will be discussed below. Also, as will be discussed, CWRC has since been re-named American Lake Water Company (“ALWC”).

Q 6. Please describe Illinois–American.

A. Illinois–American is an Illinois corporation with its principal office at 100 North Water Works Drive, Belleville, Illinois 62223. Illinois–American is engaged in the business of furnishing potable water service and sanitary sewer service to the public in portions of Alexander, Champaign, Cook, Douglas, DuPage, Grundy, Jersey, Kane, Kendall, LaSalle, Livingston, Logan, Madison, McHenry, Monroe, Peoria, St. Clair, Tazewell, Whiteside, and Will Counties, Illinois, as it is duly authorized to do, and is a public utility within the meaning of Section 3-105 of the Act. Illinois–American is the result of the prior mergers of Alton Water Company, the Cairo Water Company, East St. Louis and Interurban Water Company, Pekin Water Works Company, Peoria Water Company, and Northern Illinois Water Corporation, as approved by the Commission in Docket numbers 81-0727, 84-0204, and 99-0418; the acquisition and merger of United Water Illinois, as approved by the Commission in Docket No. 99-0457; and the acquisition of CUCI’s water and wastewater assets, as approved by the Commission in Docket No. 00-0476.

50 **Q 7. Please describe ALWC.**

51 A. ALWC is a corporation organized and existing under the laws of the State of Illinois.
52 ALWC owns and operates a water transmission pipeline constructed to bring higher quality Lake
53 Michigan water to the western and southwestern Chicago metropolitan area. ALWC wholesales
54 Lake Michigan water to Illinois–American and certain non-affiliated municipal water purveyors.
55 Illinois–American and ALWC are affiliates. Illinois–American and ALWC are both subsidiaries
56 of American Water Works Company, Inc. (“AW”).

57 **Q 8. Please discuss the history of ALWC and the Delivery Agreements.**

58 A. The Delivery Agreements were initially executed between CUCI and its affiliate, CLWC
59 (now ALWC), to provide a supply of Lake Michigan water to CUCI for its customers in its
60 Homer Township and West Suburban and Santa Fe Districts which had a poor quality local
61 water source. As noted above, the Delivery Agreements were initially approved in consolidated
62 Docket Nos. 96-0200 and 96-0240. After entering the Delivery Agreements, CWRC changed its
63 name to Citizens Lake Water Company ("CLWC"). In Docket No. 00-0476, the Illinois
64 Commerce Commission (“ICC”) approved Illinois–American’s acquisition of the water and
65 wastewater assets of CUCI. Two of such assets were the Delivery Agreements. At the time that
66 Illinois–American acquired the water and wastewater assets of CUCI, AW also acquired all of
67 the stock of CLWC. After its acquisition of the stock of CLWC, AW changed the name of
68 CLWC to American Lake Water Company. Neither AW nor ALWC, however, was a public
69 utility and, therefore, the stock acquisition was not a “reorganization” under Section 7-204 of the
70 Act, and did not require ICC approval. The affiliated relationship which was created by Illinois–
71 American's assumption of the Delivery Agreements and AW's acquisition of CLWC (now
72 ALWC), however, was approved in Docket No. 00-0476.

73 **Q 9. Why has Illinois-American re-filed the Delivery Agreement for review by the ICC?**

74 A. In its most recent general rate order, Docket No. 02-0690, Illinois-American was directed
75 to re-file all of its affiliated interest agreements, including the Agreement, with any proposed
76 revisions.

77 **Q 10. Please discuss the provisions of the Delivery Agreements.**

78 A. Each of the Delivery Agreements requires Illinois-American to take its water supply
79 requirements for the district served from ALWC, up to the allocation of Lake Michigan water
80 that Illinois-American has for such District. The Delivery Agreements provide terms of water
81 usage, storage, measurement, and pricing. Pricing is fixed for the first three years of full
82 operation under the Delivery Agreements (subject to price changes from the two municipalities
83 that supply the water to ALWC which are passed through on a dollar for dollar basis); and then
84 determined by a formula designed to reimburse ALWC for its costs, as fully set out in the
85 Delivery Agreements. The initial terms of the Delivery Agreements extend until April 30, 2037.

86 **Q 11. Should the provisions of the Delivery Agreements be re-approved?**

87 A. Yes. The terms of the Delivery Agreements are fair, reasonable and in the public interest.
88 As noted above, the Delivery Agreements were approved in two prior proceedings. The terms of
89 the Delivery Agreements have not changed since the time of the prior approvals.

90 **Q 12. Does that conclude your testimony?**

91 A. Yes, it does.